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MEMORANDUM

DATE: July 29, 2004
TO: Honorable City Council
FROM: Joseph L. Harris
Auditor General 
RE: Audit of the Mayor's Office Imprest Cash Account
C: Mayor Kwame M. Kilpatrick

Background / Audit Purpose

While conducting an audit of financial transactions in the Mayor's Office in November 2003, Office of the Auditor General (OAG) staff discovered a questionable volume of activity in the Imprest Cash bank account. The Finance Department's limit on the Mayor's Office account is set at \$3,000; auditors noticed that over a two-year period there were over \$82,000 in cash withdrawals from the account. The OAG requested additional information on the account transactions from Mayor's Office staff.

As a result of the request, the City's Chief Financial Officer (CFO) contacted the OAG. The CFO indicated that there was an ongoing investigation into suspected fraudulent activities that centered on the Imprest Cash account. An outside accounting firm had been hired to audit the account and the information obtained was turned over to a law enforcement agency. The Imprest Cash Custodian had been terminated in September 2003. In accordance with Government Auditing Standard 4.20, the OAG deferred further work on the engagement so as not to interfere with the ongoing investigation. The OAG resumed its investigation in June 2004 after the Finance Department's investigation was completed, and the Wayne County Prosecutor's Office had indicted the three alleged perpetrators.

Audit Scope

The OAG performed an audit of the Mayor's Office Imprest Cash Account for the period January 2002 to September 2003, and the related transactions to determine the extent of any fraudulent activity, the manner in which any fraudulent activity may have taken place, and whether anyone in addition to those indicted appeared to be involved.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.



Audit Objectives

Our audit of the Mayor's Office Imprest Cash account had the following objectives:

1. Determine the sources and uses of the funds flowing through the account during the audit period.
2. Determine whether the account was being used in an unauthorized manner.
3. Determine whether fund expenditures were properly reimbursed.
4. Determine whether reimbursements were properly deposited in the account.

Audit Methodology

To accomplish the audit objectives, our audit work included the following:

- We reviewed bank documents – statements, cancelled checks, deposit tickets, and deposit detail – to determine the sources and uses of monies flowing through the Imprest Cash Account.
- We reviewed City financial documents and check reimbursement requests to determine the validity of those requests as substantiated by receipts for expenditures, invoices, cancelled checks, or other valid evidence.
- We interviewed personnel in the Mayor's Office and the Finance Department.

Overview of the City's Imprest Cash Procedures

The City's Imprest Cash Manual dictates the procedures for maintaining an Imprest Cash account. Highlights from the manual that pertain to the audit of the Mayor's Office Imprest Cash account follow:

With prior approval of the Finance Department, imprest cash funds can be used where the amount of each transaction makes it impractical to issue a check requisition, or immediate cash payment is necessary, or when the transactions are irregular or intermittent. The manual indicates that an agency may maintain its imprest cash in cash or check form.

At all times, the imprest cash fund, amount on hand plus receipts for purchases, must agree with the total amount authorized.

Monthly bank statements and cancelled checks should be sent to a person other than an authorized signatory or a custodian of the imprest cash fund. All checking accounts must be reconciled with the bank statement monthly, by someone other than an authorized signatory or the custodian.

To maintain a supply of cash on hand, a check for the amount of cash needed should be written to the employee responsible for receiving and disbursing the cash. The payee and payer should not be the same. Writing checks to "Cash" is not permitted. The amount of cash should be a fixed amount. Reimbursement of the cash on hand is made by check for the exact amount of the cash purchases.



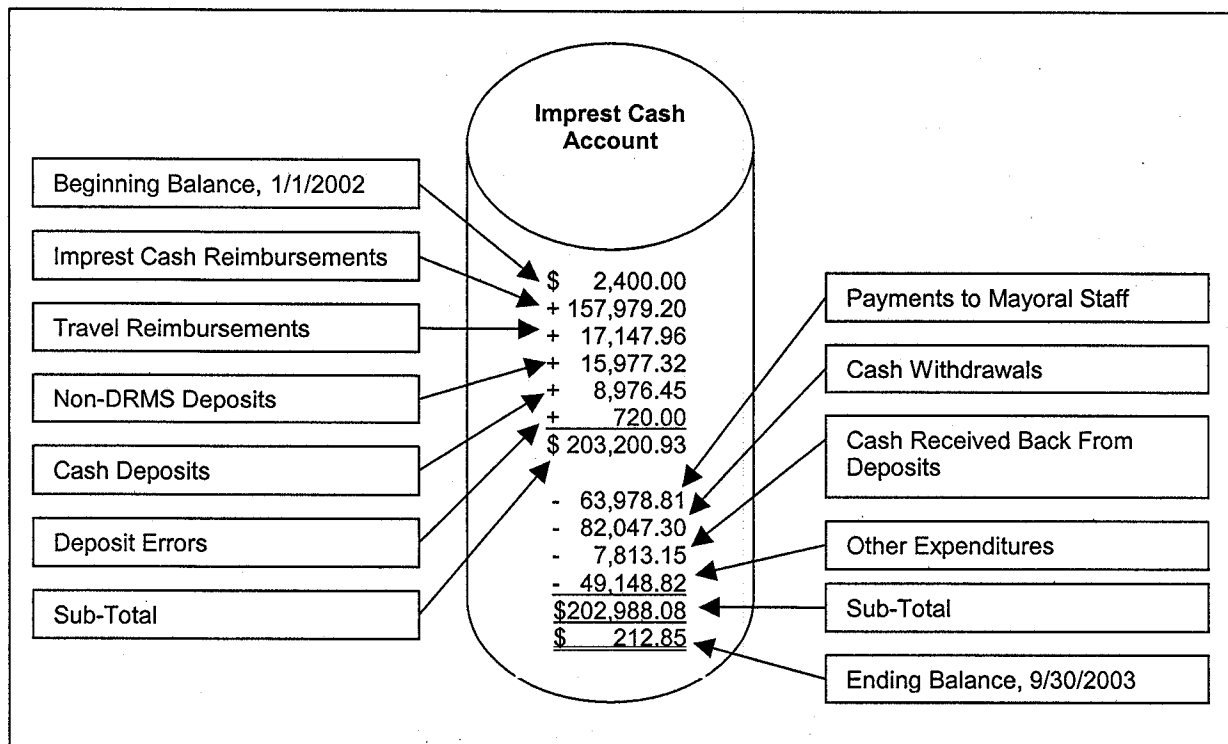
To enable the custodian to maintain the fund, the custodian is assigned a vendor number in the City's accounts payable system. Reimbursement of the imprest cash fund is accomplished by submission of a check request, the Schedule of Imprest Cash Purchases (Form C of D 7.5c), and the original invoices to Accounts Payable.

The manual further states that the imprest cash funds must not be co-mingled with other departmental funds. Travel advances for official business trips cannot be made from imprest cash funds without prior approval or special arrangement with the Finance Director.

Finance Directive #106, as revised May 1, 1996, states the dollar limits on purchases that can be made with imprest cash and that they must be made in accordance with Imprest Cash Purchase Authorization procedures.

Summary of Results

A summary of the activity flowing through the Mayor's Imprest Cash account is shown in the following chart:





Schedule of Imprest Cash Reimbursements Deposited

Total Check Payments Reimbursed	\$ 118,038.87
Total Cash Payments Reimbursed	35,062.30
Unidentified Items	<u>27,891.64</u>
Total Imprest Cash Reimbursement Requests	\$ 180,992.81
Less: Reimbursements Not Deposited Into Account	<u>23,013.61</u>
Total Imprest Cash Reimbursements Deposited	<u>\$ 157,979.20</u>

Missing Imprest Cash Reimbursement Checks

Mayor's Office personnel submitted and were paid a total of \$180,992.81 in check requests to reimburse the Imprest Cash account. Of this amount \$157,979.20 was deposited into the Imprest Cash account. The remaining \$23,013.61 that was paid to the custodians was not deposited into the Imprest Cash account. As stipulated in the Imprest Cash Manual, checks for reimbursement were made payable to the Imprest Cash Custodian.

Insufficient Documentation Submitted for Expense Reimbursement

To date, we have reviewed check requests and documentation for \$153,101.17 of the Mayor's Office Imprest Cash account related check requests. We found that in most cases, the check requests lacked the required documentation for reimbursement of the imprest cash expenditure. Although a Schedule of Payments was always attached to the check requests, invoices totaling only \$21,896.01 were submitted. Submission of an original invoice is required by the Imprest Cash Manual and by Accounts Payable payment procedures for reimbursement of expenditures.

Suspicious Authorization and Approval of Check Request Forms

In most cases the check request was prepared and signed by the Imprest Cash Custodian; in other cases the approving name is the Chief of Staff. The presented signature of the Chief of Staff does not resemble the signature of record for the Chief of Staff; rather it appears that the signature is in the handwriting of the Imprest Cash Custodian. (See Attachments)

Reimbursement of Non-Existent Purchases

We found many instances where the checks submitted for reimbursement from Accounts Payable did not agree to the checks that were paid from the Imprest Cash account.

Between March 2002 and July 2003, expenditures totaling \$84,728.97 were included on check requests that were presented for reimbursement to Accounts Payable. These expenditures had been paid with checks totaling \$66,597.30 from the Imprest Cash account. In addition, expenditures represented as being paid by 32 fictitious checks were included on check request forms and submitted for reimbursement.

	Total Check Payments Reimbursed
Actual Checks	\$ 84,728.97
Fictitious Checks	<u>33,309.90</u>
Total Checks Reimbursed	<u>\$118,038.87</u>



Reimbursement of Unsupported Cash Payments

Between March 2002 and July 2003, \$35,062.30 of Imprest Cash expenditures, allegedly paid with cash, were submitted to Accounts Payable for reimbursement. Receipts to substantiate the payments were submitted for only \$5,292.95. Due to the lack of documentation, we are unable to substantiate that the Mayor's Office actually received \$29,769.35 of the goods and services submitted for reimbursement to the Accounts Payable Division as cash payments.

	Invoices Submitted	Unsupported Cash Purchases	Total Cash Payments Reimbursed
Cash Payments	\$5,292.95	\$29,769.35	\$35,062.30

Non-Imprest Cash Funds Deposited

In addition to the reimbursement of amounts paid for Imprest Cash expenditures, the Imprest Cash Custodian deposited other monies into the account as follows:

DRMS Travel Reimbursements		\$17,147.96
Personal Check or Money Order	\$ 379.50	
Check issued by Treasury Division	780.44	
Local Television Media (WWJ & FOX) Checks	11,775.00	
Wilberforce University Check	2,103.06	
Hyatt Operating Account Check	859.32	
Other Checks	80.00	\$15,977.32
Total Non-Imprest Cash Funds Deposited		\$33,125.28

Checks Made Payable to Imprest Cash Custodian and Mayoral Staff

A total of 151 checks were written to the Imprest Cash Custodian and other Mayoral staff as follows:

Payee	Name of Signer	Total
Misty Evans	B. Cunningham / C. Beatty	\$32,366.63
Cheryl Richardson	Misty Evans	12,250.00
Lisa Stokes	Misty Evans / Nneka Cheeks	6,831.34
Sub-total		\$51,447.97
Other Mayoral Staff	Various	12,530.84
Total		\$63,978.81

The signature on the checks bearing Christine Beatty's name are not the same as the official signature record. It appears that the signatures on the checks bearing Christine Beatty's name are in the handwriting of Misty Evans. (See Attachments)

Net Cash Withdrawals

There were \$8,976.45 of cash deposits into the Imprest Cash account. Numerous cash withdrawals were made from the account, and cash was received back on deposits. We documented a total of \$89,860.45 in cash that was received by the Imprest Cash Custodian from the Mayor's Office Imprest Cash account. The



signature on the bank deposit and withdrawal forms was that of the Imprest Cash Custodian.

Description	Amount
Cash Withdrawals	\$ 82,047.30
Cash Back From Deposits	7,813.15
Total Cash Withdrawals	\$ 89,860.45
Cash Deposits	- 8,976.45
Net Cash Withdrawals	\$ 80,884.00

Other Expenditures Made by Check

Although 200 checks were written for alleged specific purposes, due to the lack of documentation and the known fraudulent activity, the validity of the specified purpose is suspect. Therefore, an additional \$32,545.76 in undocumented expenditures could have been embezzled by the Imprest Cash Custodian. These other expenditures are summarized below:

Expenditure Type	Amount
Meetings and Meals	\$ 27,815.55
Travel Advances	4,681.25
Gifts and Flowers	2,925.89
Advertising	2,412.00
Other	2,393.92
Books, Magazines and Subscriptions	1,594.64
Office Supplies	1,228.47
Cellular Telephones	1,066.90
Auto Repairs and Maintenance	721.83
Entertainment	600.00
Purpose Not Identified	3,708.37
Total Checks Written	\$ 49,148.82
Less: Expenditures Documented By Receipts	16,603.06
Expenditures Not Documented By Receipts	\$ 32,545.76

Amounts Believed Received by Alleged Perpetrators of the Defalcation

	Cheryl			Total
	Misty Evans	Richardson	Lisa Stokes	
Checks	\$32,366.63	\$12,250.00	\$ 6,831.34	\$ 51,447.97
Cash Withdrawals	82,047.30	0.00	0.00	82,047.30
Other Cash Withdrawals	7,813.15	0.00	0.00	7,813.15
Undeposited Reimbursements	5,149.88	17,863.73	0.00	23,013.61
Undocumented Expenditures	32,545.76	0.00	0.00	32,545.76
Total	\$159,922.72	\$30,113.73	\$ 6,831.34	\$196,867.79



Conclusion

Lack of enforcement of internal controls over the Mayor's Office Imprest Cash account allowed the Imprest Cash Custodian and other Mayoral staff to embezzle City funds. Shortfalls in the application of the City's Imprest Cash procedures include:

- Imprest Cash Account reconciliations were not completed, which resulted in reimbursement checks not being deposited into the proper account and cash withdrawals going unnoticed.
- Checks received from various outside sources that should have been deposited into a Treasury Division account were deposited into the Imprest Cash account.
- Check reimbursements were paid without adequate documentation allowing for the payment of fraudulent reimbursement submissions.
- Check reimbursements were paid without original invoices as required by the purchasing ordinance.
- Check reimbursements were paid based on signatures on Check Request forms. These signatures were not verified with those on the Authorized Signature Record.
- Imprest Cash reimbursements were processed for amounts greater than the Mayor's Office Imprest Cash limit. The limit of this account was \$3,000, yet checks were issued for two to three times this amount.
- Approval limits, as stated in Finance Directive #106, as revised May 1, 1996 were not followed. This Finance Directive states that there are dollar limits and that they must be made in accordance with Imprest Cash Purchase authorization procedures.

Based on our review, it appears that the Imprest Cash Custodian and the other Mayoral staff members received between \$150,000 and \$200,000 resulting from the events and transactions cited herein.

In the conduct of our audit work, nothing came to our attention that would indicate that any City official, other than those already indicted, was involved in the defalcation.

ATTACHMENTS

1381

CITY OF DETROIT
MAYOR'S OFFICE-IMPREST CASH
 2 WOODWARD AVE. RM 1125
 DETROIT, MI 48226-9449

DATE June 27, 2003

TO THE ORDER OF Misty Evans \$ 1,500.00

One thousand five hundred & no/100 DOLLARS

ENDORSE
 Signature Bank
 10000 Woodward Ave.
 Detroit, MI 48226-9449

FOR Christine Bently

⑆001381⑆ ⑆07200009⑆ 1850525500⑆

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 Detroit, MI 48226-9449

FOR Christine Bently

⑆001381⑆ ⑆07200009⑆ 1850525500⑆

Posted : 06/27/2003
 Bank : 0002
 R/T : 007200009
 Account : 1850525500
 Check : 1381
 Amount : 1500.00
 DIN : 45349000

11/383



CITY OF DETROIT AUTHORIZED SIGNATURE RECORD

(Submit To: Finance Department, Accounting Division, 801 CAYMC)

Department: MAYOR'S OFFICE		Agency Number: 33
Signature	Name & Title	Items authorized to sign* (Indicate by letter items)
	Kwame M. Kilpatrick Mayor	E
	Christine Beatty Chief of Staff	E
	Derrick Miller Chief Administrative Officer	E
	Misty Evans Office Mgr./Asst. Deputy Chief of Staff	E
	Sean K. Werdlow Chief Financial Officer	E
	Carolyn Williams Meza Chief Operating Officer	E

Items Authorized to Sign

A. Deeds; Contracts; other Formal Documents	E. All Papers and Documents
B. Payrolls; Personnel Requisitions; other Personnel papers	F. Purchase Order Liquidation
C. Purchase and Sales requisitions, Purchase Orders - changes, maintenance	Contract Payments
Contracts - setup & changes, additions & amount changes, maintenance	G. Budget Documents
Manual Cash Disbursements, check requisitions, Accounts	H. File Maintenance Documents
Receivables Maintenance/Adjustments	I. Other - As Follows--
D. Journal Vouchers; Interdepartmental Purchase Orders	J. Bid Recommendations
Issues, Changes, Settlements; Interagency Billings, Stores Issue Summaries	

The persons whose signatures appear above are authorized representatives of this Department for signing the designated papers and documents.

Delegate's Signature	Date	Processed by	Date
	11/8/02		11/08/02